

VZCZCXRO7207
RR RUEHAG RUEHDF RUEHIK RUEHLZ RUEHROV RUEHSR
DE RUEHMIL #0031/01 0411032
ZNR UUUUU ZZH
R 101032Z FEB 09
FM AMCONSUL MILAN
TO RUEHC/SECSTATE WASHDC 1678
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHRO/AMEMBASSY ROME 8716
RUEHFL/AMCONSUL FLORENCE 0187
RUEHNP/AMCONSUL NAPLES 0183
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC

UNCLAS SECTION 01 OF 03 MILAN 000031

SENSITIVE
SIPDIS

STATE FOR DOT

E.O. 12958: N/A
TAGS: [EAIR](#) [ECON](#) [PGOV](#) [IT](#)
SUBJECT: IS THERE A FUTURE FOR MALPENSA?

REF: 08 MILAN 15

MILAN 00000031 001.2 OF 003

11. (SBU) Summary: Domsday scenarios abound in Milan following the decision by Alitalia to partner with Air France and decisively choose Rome as its sole hub. Predictions of immediate economic pain to the region are overstated, but certainly possible is an atrophying of the area's attractiveness to investors should Milan remain long without a genuine international hub. Regardless of Alitalia's future decisions regarding Malpensa, however, the airport suffers from fundamental flaws (its location and cannibalization by other regional airports in particular) that will continue to impact its appeal. A refocused Malpensa is the most likely route to its survival, with more cargo, flights to the Middle East and Asia, and/or an increased presence of Lufthansa possible scenarios. However, it's unclear whether Malpensa can reinvent itself in time to head off lasting economic damage to the region and be ready for Milan's hosting of the Expo in 2015. End summary.

A Business Center With No Hub?

12. (SBU) The final decision of the re-invented Alitalia) with its Air France partner) to make Rome's Fiumicino its only international hub (after initial promises to make Malpensa an equal partner) has sparked hand wringing, recriminations, and gallons of ink spilled in the local press about the &devastating8 economic impact on Milan and Lombardy. Indeed, Malpensa airport is now a shadow of its former self) and of the image local and national politicians had for the airport when it opened in October 11998. The airport lost four million passengers (from 23 to 19 million) and 20 percent of its total traffic in 2008. For the moment, Alitalia (which had 1,238 weekly flights from Malpensa as late as March 2007) has 201 weekly flights from the airport with only three intercontinental destinations offered (New York, San Paolo, and Tokyo).

13. (SBU) However, the reality is that the immediate impact on the Milan region is more ego than euro. Alitalia eliminated the lion's share of its flights from Malpensa) with the commensurate cuts in airport staffing) in April 2007, with some additional cuts in November 2008. In fact the final number of 201 weekly flights is an increase of 56. According to regional officials and a noted local transport researcher, the closing of this latest chapter in Alitalia,s tortured history should not lead) as many press articles have claimed) to hundreds or thousands of additional layoffs in the immediate term.

14. (SBU) This is not to say that the hollowing out of

Malpensa has not and will not take its toll on the local economy. According to a study done by Milan's Bocconi business school, Malpensa's connectivity index (a measure of an airport's linkages and thus attractiveness for international travelers, with Heathrow the benchmark) dropped from 35.1 to 22.6 in 2008) around the same level as Helsinki or Budapest. Furthermore, according to a study done by Milan's Chamber of Commerce, the de-hubbing of Malpensa will cost Lombardy 10 billion euro and 45,000 jobs between now and 2020. Though an academic with whom we spoke would not comment on the Chamber's numbers, he did say that within a year or two Lombardy's economy would start to wither without a genuine international hub as existing international investors and Italian exporters move and new investors avoid Milan because of its poor transport links. He pointed out that the record shows that the existence of a Class A8 international hub is essential to compete for foreign investment.

&Roma Ladrone or &Linate Cannibale?

15. (SBU) Even our soberest contacts have been very critical of the decision making process that brought Alitalia and Air France together and made Rome the country's sole hub for the time being. The most charitable explanation we heard was that the new Rome-based Alitalia wants to develop one hub at a time and thus logically would start close to home. However, most thought the politically potent unions, Alitalia bureaucracy, and by some accounts Air France itself brought too much pressure to bear on the government and Alitalia's new owners (a consortium of mostly northern businesspeople), which had to agree de-emphasize Malpensa despite the economic peril.

16. (SBU) On paper it is odd that the national carrier would

MILAN 00000031 002.2 OF 003

essentially abandon an airport serving a region that accounts for nearly 50 percent of Italy's GDP and the majority of its exports. However, there are some fundamental problems that hurt Malpensa beyond hazy domestic politics and the single-hubbing strategy of Air France. A key issue is management, with Malpensa's owner (SEA) reportedly refusing to offer any incentives to attract new carriers or routes, choosing instead to raise existing fees to make up the current deficit. Another major problem is location. One journalist with whom we spoke asserted that because Malpensa is so far from Milan and so poorly connected with its most likely customer base outside the city, it was hard to imagine the airport ever really becoming world-class. Capitalizing on this weakness, the number of competing regional airports) with notable and expanding international airports in nearby industrial centers of Bergamo, Verona, and Turin) cannibalize flights and passengers that might otherwise choose Malpensa.

17. (SBU) Along these lines, the giant thorn in Malpensa's side is Milan's competing international airport Linate. This airport) the Reagan to Malpensa's Dulles) is smaller, has a runway that doesn't accommodate the largest jets, and is more expensive to fly from. However, it is 15-minutes from the city's business center, rather than an hour or more. Also, Linate is the hub of the profitable Rome-Milan shuttle (255 weekly flights vs. 35 from Malpensa) and is Alitalia's Milan center for intra-EU flights to the most important European hubs (Alitalia flies to London, Frankfurt, and Amsterdam from Linate, for instance, but not from Malpensa). The new Alitalia management on February 9 issued an ultimatum that Linate had to be closed to all flights besides the (Alitalia-dominated) Rome shuttle before they could consider expanding at Malpensa. Our non-political contacts agree that Malpensa is not competitive with Linate as is, but not a single local politician is willing to publicly suggest closing Linate or eliminating flights. Even regional political figures who in the past supported Malpensa over Linate are now afraid to call for Linate to shut down as it

has become the only game in town for the moment. The fact that the same company, linked politically and financially with the city of Milan, owns both Linate and Malpensa (as well as a portion of competitor Bergamo) also complicates matters.

From Whence Salvation?

¶8. (SBU) With Alitalia clearly preferring Rome and Linate, rescue is unlikely to come from that direction. Neither will it come in the short term from American carriers) despite their rights under Open Skies and an abundance of vacant slots (though perhaps not many at prime times due to the unclear fate of the slots apparently to be vacated by the new Alitalia). They tell us that because of the U.S. economic crisis and priorities elsewhere in the region they were unlikely, at this point, to add any additional routes or frequencies.

¶9. (SBU) There is some encouraging news. Cargo (down 14.5 percent in 2008 because of Alitalia,s exit) is making a comeback with Cathay cargo and Luxemburg-based Cargolux announcing several new frequencies this year and additional cargo coming with new frequencies added recently by Emirates and Etihad Airways. These new Middle Eastern flights could also be part of a trend, our contacts say, of increasing attention by Middle Eastern and Asian carriers wanting to add long-distance Malpensa flights. Another hopeful trend, according to observers, is the expansion of Lufthansa (which launched this month six new European routes using its newly formed Lufthansa Italia subsidiary). Though Lufthansa did not get (or even publicly bid for) Alitalia, there's still some thought locally that the German carrier will gradually make Malpensa a semi-official hub for flights to Europe and, perhaps, beyond. Lufthansa, through its affiliate Air Dolomiti, already plays a major role in the region's other airports, ferrying passengers to Frankfurt or Munich for onward flights.

Comment: Can Help Arrive in Time?

¶10. (SBU) The Malpensa of today is not a viable airport. It is currently an oversized hub for discount carriers) arrival and departure screens are filled with EasyJet, Volare, and a host of other low-costs. Though there are glimmers of hope, they may not be short-term solutions. Expanded Middle Eastern or Asian traffic will in many cases

MILAN 00000031 003.2 OF 003

require amendments to existing bilateral air accords, something that will take time. Meaningful Lufthansa expansion into Malpensa will likely hinge on the success of its Lufthansa Italia experiment and also fair access to slots no longer being used by Alitalia. The basic question, then, is whether Malpensa's new shape can take form before it's too late for the local economy or for the Expo which will come to Milan in 2015.
WEYGANDT